



California Small Business

California Trade and Commerce Agency

September 1999

CALIFORNIA FACTS

Half of all employment is in small businesses.

There were 398,700 new small business employees in 1998.

More than three-quarters of the new jobs created in 1998 were in small businesses.

Ninety-eight percent of all businesses are small businesses.

Small business income rose 4.8 percent in 1997.

Approximately 1.6 million people are self-employed.

Homebased businesses are a significant and growing phenomenon.

Small businesses are an important part of the California economy. They generate jobs, provide economic opportunity and flexibility, and boost economic output.

Small businesses provide a pool of entrepreneurial experimentation from which successful firms emerge. The special expertise and agile responses of small firms can result in successful market expansions.

Smaller businesses can adjust to market changes more rapidly than a large company, and often bring new products to market more quickly. These advantages make small businesses crucial components for any productive and balanced economy.

California is home to 2.6 million small businesses, including the self-employed. Of the businesses with employees, 7.3 million people, or half of the employment is in small businesses.

The Number of Small Businesses in California

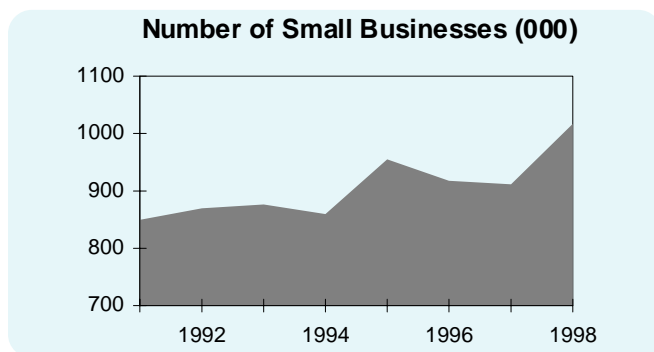
Small business is generally defined as any independently owned and operated company, with fewer than 100 employees, that is not dominant in its industry. In 1998, there were 1,038,400 businesses paying unemployment insurance in the state, as counted by the Employment Development Department (EDD). Of these, 1,016,600 were small businesses. The number of small businesses is more than doubled by the inclusion of self-employed workers who do not pay unemployment insurance.

The U.S. Small Business Administration (SBA) estimated that California had 1,587,000 self-employed workers. Combining the two sources brings the total number of small California businesses to 2.6 million. Since the definition of self-employed does not include incorporated businesses owned by a self-employed person, the actual number of people working for themselves would be higher.

The growth of small businesses has not been a steady climb in the 1990s. New businesses grew sharply in 1998, with an increase of 11.6 percent from the prior year. But the decade as a whole shows no pattern that corresponds to the economic cycle.

California is home to more than two and a half million small businesses.

California



Historically, small business creation is cyclical. Business creation increases during economic recessions, due to layoffs or other factors requiring some people to find new ways to make a living. Then, when strong economic times return, some small business owners will close their doors, opting for the steady paycheck and benefits offered by many employers.

But since 1997, a number of statewide factors contributed to the success of small businesses. The continued improvement in the state and national economies created a positive atmosphere for entrepreneurs. Personal income and consumer spending have increased.

The availability of financing at reasonable costs made it easier to start a company. Companies already in existence could afford expansions, upgrades, new hires and other capital outlays. The steady interest rates at relatively low levels and the availability of increasing amounts of venture capital were also factors creating a positive atmosphere for entrepreneurs.

Small Businesses with Employees

In 1998, more than 7.3 million workers were employed in business establishments with fewer than 100 workers, up 5.8 percent from 1997. The number represented half of all California employees for whom unemployment insurance is paid, according to the California Employment Development Department (EDD).

In 1998, California small businesses added 398,700 new employees, 77 percent of all the new jobs created since 1997.

The total number of California employees are reported in the EDD publication *Unemployment Insurance Reporting Units by Size, Industry and County*,

Report 524. On page 3 is a summary of Table 2B, *Insured Employment by Employment Size of Reporting Unit*. The full *Report 524* contains the data in much greater detail by county and by industry. This document, and other valuable data are available on the EDD Labor Market Information website at <http://www.calmis.ca.gov>, under Size of Firm Data. The site is also an excellent resource for projection data on occupation.

Thirty percent of all small business employment is in the services industry. Retail trade is the next largest employment sector with nearly a quarter of all the small business employees, followed by manufacturing and wholesale trade.

Home-based businesses. Many self-employed workers can work out of their homes, offering convenience and flexibility to the owner. But because many home-based businesses have no employees, or employ family members and do not pay unemployment insurance, a large number of these small businesses do not show up in official counts.

Technological advances have played a large role in allowing many home-based businesses to exist. Efficient and professional businesses can be run from the home with the help of office equipment targeted to the small and home offices. Compact desktop, laptop and palm-sized computers, as well as specially designed software, are available to send and receive data, maintain inventory and keep accounting records.



California Employment by Business Size, Third Quarter 1998									
Industry	Total employment in businesses with the specified number of employees.								
	Total	0-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999
CALIFORNIA TOTAL	14,257,229	846,712	948,959	1,313,758	2,268,758	1,924,230	2,281,645	1,387,405	
Agriculture, Forestry, & Fishing	603,135	29,244	39,572	57,801	86,725	74,782	106,644	86,035	
Mining	24,900	658	927	2,022	3,802	3,832	5,049	5,829	
Construction	651,239	56,147	72,325	98,766	144,896	103,682	103,731	41,472	
Manufacturing	1,977,856	33,426	60,792	119,318	268,299	267,174	417,784	281,684	
Transportation & Public Utilities	690,850	24,446	31,344	48,173	97,340	95,313	138,882	83,477	
Wholesale Trade	806,126	61,742	82,014	115,283	179,842	125,984	132,825	64,588	
Durable Goods	477,865	35,162	50,733	74,161	110,296	74,716	75,840	29,559	
Nondurable Goods	328,261	26,580	31,281	41,122	69,546	51,268	56,985	35,029	
Retail Trade	2,347,834	121,900	227,383	327,385	609,361	446,234	371,852	145,436	
Finance, Insurance & Real Estate	810,160	74,332	72,739	88,167	121,828	98,197	119,450	66,579	
Services	4,238,560	419,029	329,261	399,185	576,270	474,175	633,157	422,714	
Federal, State & Local Government	2,079,487	15,912	27,629	54,505	175,057	232,853	250,857	189,267	

California Business Establishments by Industry and Size, Third Quarter 1998									
Industry	Number of reporting units with specified number of employees								
	Total	0-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999
CALIFORNIA TOTAL	1,038,376	674,068	143,398	97,123	74,090	27,957	15,222	4,085	
Agriculture, Forestry, & Fishing	36,955	21,687	5,958	4,258	2,867	1,084	694	254	
Mining	987	468	138	146	127	53	34	17	
Construction	69,150	43,659	10,924	7,345	4,835	1,510	711	126	
Manufacturing	57,735	23,611	9,042	8,645	8,589	3,857	2,730	825	
Transportation & Public Utilities	30,968	16,886	4,746	3,519	3,133	1,378	925	248	
Wholesale Trade	72,821	42,949	12,430	8,493	5,972	1,836	896	192	
Durable Goods	41,852	23,324	7,669	5,471	3,672	1,087	509	88	
Nondurable Goods	30,969	19,625	4,761	3,022	2,300	749	387	104	
Retail Trade	164,705	76,885	34,020	24,231	19,923	6,559	2,540	448	
Finance, Insurance & Real Estate	74,616	50,452	11,048	6,586	4,012	1,419	778	191	
Services	482,554	370,378	50,217	26,692	19,150	6,839	4,222	1,239	
Federal, State & Local Government	32,369	12,817	4,097	3,938	5,304	3,393	1,681	554	

a) Data are confidential.

Source: Employment Development Department, Report 524, Third Quarter 1998.

UI Insured Payroll and Reporting Units by Employment Size and Reporting Unit, Classified by Standard Industrial Classification.

California

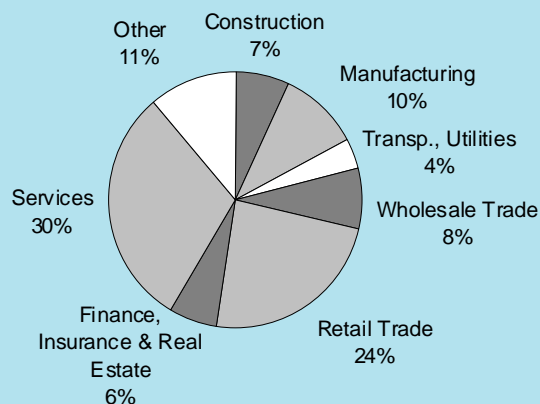
Small Business Growth Industries

About 98 percent of all California business establishments have fewer than 100 employees. In fact, most businesses (65 percent) had fewer than five employees.

New small business jobs in the services sector grew by more than 100,000 in 1998. Within the services sector, business services added 26,600 new small business jobs. Business services includes computer programming and temporary personnel services. Most of the service industries added more jobs to small businesses than to large businesses. New business services jobs and new jobs in private households each added over 25,000 new services sector jobs in 1998.

Manufacturing gained fewer than 1,000 new jobs. The economic woes in Asia depressed demand for California exports of manufactured goods, particularly in the electronics industry. But, the state economy remained strong, driving new job growth in the construction industry. Construction is among the top five largest small business employers in the state. Continued demand for both residential and nonresidential construction helped add 41,400 new small business jobs in 1998.

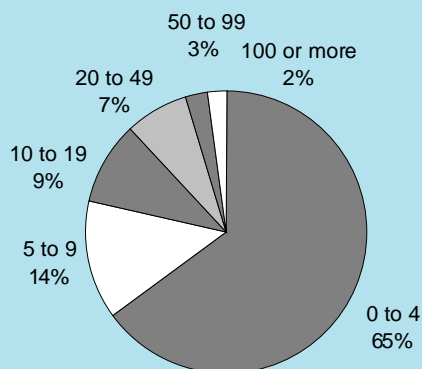
Small Business Employment by Industry



New jobs in Finance, Insurance and Real Estate were mixed. The real estate industry added nearly 3,000 new small business jobs, and strength

in the stock market added 4,200 jobs in small business security and commodity brokers. However, consolidations and mergers in banks resulted in a loss of 5,900 small business jobs.

Percent of Firms by Employment Size



The Number of Small Businesses

The number of reporting units is also published in the *Report 524*, under *Insured Payroll and Reporting Units by Employment Size of Reporting Unit*. An abbreviated version of the table is on the bottom portion of page 3.

As with the employment, the greatest number of small businesses were in the services industry. Retail trade businesses were the next largest industry, followed by wholesale trade and construction.

California represents around 11 percent of the national total of small business establishments and employees. The state's share of the annual payroll was 12 percent in 1996, the latest data available for a California comparison to the U.S.

For technology companies, the California entrepreneurial spirit remained strong. High technology-related products and services were in strong demand. These world-renowned products attracted a record \$5.8 billion, or 40 percent of the national total, in 1998.

Some venture capitalists, themselves having achieved success, invest in spin-offs or start-ups created by friends, former classmates or colleagues.

State and Federal Business Assistance

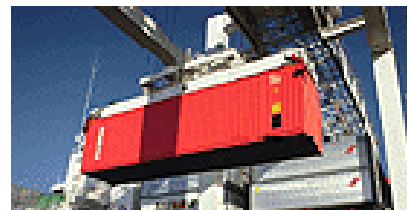
Government programs help small businesses overcome some of the disadvantages they encounter due to their size. California state government has been supporting small businesses for more than a decade through the California Trade and Commerce Agency's Office of Small Business. Assistance is also available through the California State website at <http://www.ca.gov/s/business>. Further information about state assistance is found on the next page.

Federal government support for small businesses is concentrated in the U.S. Small Business Administration. SBA offers assistance in starting, expanding and financing small businesses. For a list of the offices by state and the services they provide, see the SBA website at <http://www.sbaonline.sba.gov>

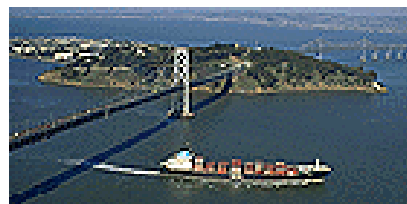
Export assistance. Many small firms could expand their markets by exporting their products. To take advantage of these international opportunities, the Trade and Commerce Agency and the International Trade Administration (ITA) of the U.S. Department of Commerce can provide export assistance programs and export financing. There is also sponsorship of international trade shows for the display of California products.

Information from the International Trade Administration is available at <http://www.ita.doc.gov>. There are 14 Export Assistance Centers in the state. There is also information on state trade offices, trade finance and foreign trade zones. The latter are designated zones in or near customs points of entry. Imported goods may be sorted, repackaged or otherwise manipulated while being excluded from custom duty and excise tax until the time of transfer from the foreign trade zone.

Many California firms are related to agriculture. Export assistance is available for these firms selling food products and farm equipment to foreign countries. There are several export assistance programs in the state sponsored by the U.S. Department of Commerce. In Sacramento, the California Agriculture Team was created, composed of



California small business products are shipped worldwide.



the U.S. Department of Commerce, the U.S. Department of Agriculture, the California Department of Food and Agriculture, the Western U.S. Agricultural Trade Association, the World Trade Center and the Centers for International Trade Development (funded by community colleges).

The export assistance teams teach businesses how to sell their products to various countries, using the teams' knowledge of trade barriers, and ethnic and cultural differences. The Agriculture Team organizes trade missions with other California agriculture products at a cost substantially less than if a company conducted a trade mission on its own. In addition, the team can provide financial assistance through matching funds. The funds are usually in the range of \$5,000, but can be as much as \$100,000.

Legislation affecting business. Throughout the year, legislation is proposed and passed that can have an effect on business. To keep abreast of pending legislation, the state Legislature maintains an Internet site at <http://www.leginfo.ca.gov>.

The California Chamber of Commerce in Sacramento tracks legislation affecting business in the state. In addition, the Chamber maintains a list of other websites useful to businesses. Their website at <http://www.calchamber.com>.

California

California Trade and Commerce Agency

State support for small businesses includes both financial assistance, and management and technical assistance. The Office of Small Business (OSB) is the lead office in these matters, although other groups play very important roles. California's programs represent a strong commitment to the future of small business, in a state that clearly understands that small business is big business.

California Office of Small Business

OSB offers a wide array of programs and services to the small business owner and entrepreneurs starting, buying or expanding their operations in California. Information about their services can be found on the Internet, at <http://commerce.ca.gov/business/small>.

Small Business Development Centers

The Small Business Development Centers (SBDCs) program is a collaborative effort of the U.S. Small Business Administration, California Trade and Commerce Agency, Chancellor's Office of California Community Colleges and local host institutions which are also bolstered by private sector support. This unique partnership benefits federal, state and local economic interests by creating and retaining jobs, increasing sales, increasing tax revenues and increasing the small business success rate. In short, fostering economic development.

The SBDCs provide a full range of counseling and training, including business planning, financial planning, organization development, accounting principles, etc., as well as specialized services including export, high technology, procurement, manufacturing assistance, environmental management and much more.

While all SBDCs provide general business assistance services, each center develops its own services for addressing local business problems. For example, SBDCs in affected areas have programs to address military base reuse. Nearly every county has an SBDC. For the address and telephone num-

ber of the nearest SBDC, contact the SBDC Program in Sacramento at (916) 324-5068, or via the Internet at <http://commerce.ca.gov/business/small>.



Business assistance is available for small business owners, whether for start-ups or expansions.

Office of Small Business Loan Programs

Financial assistance is provided through a variety of programs, though the major financing program is the State Loan Guarantee Program. California provides loan guarantees to businesses unable to find conventional funding.

Loan guarantee and bonding assistance. The Small Business Financial Development Corporations (FDCs) issue loan guarantees, up to 90 percent or \$350,000 on revolving lines of credit, small business loans, agricultural loans, and other types of loans. FDCs also assist in securing bond guarantees up to \$350,000 from surety companies for highway related projects and other public works projects. For information, call (916) 324-1295.

Hazardous Waste Reduction and Fishing Vessel loan programs. The maximum loan for the hazardous waste reduction loan is \$150,000 and is to be used for purchasing equipment and processes that reduce emissions. The fishing vessel loans are for increasing the fuel efficiency of fishing vessels, including passenger-carrying fishing vessels. The maximum loan is \$25,000. Contact the Office of Small Business at (916) 323-0777.

Small Business Capital Formation

Access to capital financing for small and growing businesses is one of the most important components of job growth and economic recovery. Capital formation ranks among the highest priorities for almost every organization that represents small businesses or has a small business constituency.

California is spawning hundreds of new and growing enterprises that daily seek access to equity and long-term debt capital. Making this private and venture capital readily available is vital to the stimulation and sustenance of our economy.

As noted earlier, many small businesses are attractive investments to venture capital firms. But not all investors are large pension funds or wealthy individuals. Nor do all businesses need capital infusions of millions of dollars. In 1995, the California Department of Corporations eased requirements for businesses interested in selling small amounts of stock to the public. Interested individuals may now invest up to \$2,500 to purchase stock, without proving their own net worth.

State and federal programs are available to assist businesses with capital formation.



Small corporate offering registration (SCOR) program. The SCOR program allows California corporations and certain foreign corporations to issue shares directly to investors using a limited public offering by registering the securities in one of the 43 states where the program is offered. Companies may raise up to \$1 million in new capital each year through SCOR filings. Call the California Department of Corporations at (415) 557-3787 or (213) 736-2731 for application forms. More information is available on the Internet at <http://www.direct-stock-market.com>.

Regulation A program. This program permits corporations and limited partnerships to raise up to \$5 million by qualifying the offering with the Securities and Exchange Commission (SEC) and with state regulators that so require. It allows stockholders to sell up to \$1.5 million in a secondary offering, subject to certain requirements. For application forms, call the SEC at (213) 965-3998 or (415) 705-2500.

Advocacy Program

The program serves as the principal advocate for small business. Advocacy assistance is provided to small businesses on a variety of issues such as problems they may encounter with state agencies or licensing requirements.

Direct assistance to small business is provided through small business conferences, seminars and workshops, the Advocate HELP-LINE (800-303-6600, or 916-327-HELP) which operates an interactive phone service that provides information on 50 different subjects such as federal and state loans, state procurement, management and technical assistance, certification and registration and available publications. Small business assistance is also available on the Internet. The address is <http://commerce.ca.gov/business/small/bizwiz/bizwizhm.html>.

California

International Trade and Investment

International trade has been a cornerstone of California's economic growth. The International Trade and Investment Division (ITI) of the California Trade and Commerce Agency developed programs and policies to increase jobs in the state by promoting international business.

The California World Trade Commission (WTC), ITI's public-private advisory board, provides assistance to California's international-oriented businesses.

WTC services include the Office of Export Development which organizes trade missions, distributes product catalogs, and maintains a trade lead database.

The Export Finance Office provides an export loan guarantee program for working capital to complete export sales.



The international offices provide in-country coordination and support for trade shows, investment promotions and business missions, including direct assistance to

California's companies. There are nine foreign offices in locations in Asia, Mexico, Europe, the Middle East and South Africa.

The Office of Foreign Investment can help identify foreign partners for direct capital investment, joint venture partnerships, licensing agreements and collaboration in research and development.

More information is available from the Trade and Commerce Agency web site for International Trade and Investment: <http://commerce.ca.gov/international>.

Office of Export Development (562) 590-5965
Export Finance Office (562) 499-6014
Foreign Operations Manager (916) 324-6050
Foreign Investment (916) 322-3518

California Small Business

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This publication is available only on the
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<http://commerce.ca.gov/business/small>

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